HAMBRO CANADA LIMITED

1975 ANNUAL REPORT

HAMBRO CANADA LIMITED

AUDITORS

Clarkson, Gordon & Co.

HEAD OFFICE

P.O. Box 174, Royal Trust Tower, Toronto-Dominion Centre
Toronto M5K 1H6, Ontario

HAMBRO CANADA LIMITED

TO THE SHAREHOLDERS:

The Consolidated Statement of Operations shows a profit of $2,499,000 or 34¢ per share as opposed to a loss of $3,980,000 or 56¢ per share for 1974. The turnaround results from a combination of several things — the corporate re-organizations which were part of the 1974 amalgamation with Peel-Elder Limited and which had the effect of reducing expenses; the liquidation of the security trading portfolio by mid-year which eliminated carrying costs thereof; a substantial increase in the earnings of the unconsolidated subsidiaries; and the sale in mid-year of the Flemingdon Park apartment complex.

In the spring of 1975, due to ill health, Mr. E. R. E. Carter, President and Chief Executive Officer of the Company requested a leave of absence, which he asked to be made permanent at the end of August. K. A. Roberts, Deputy Chairman of the Board, and formerly, for many years President and/or Chairman of the Board, agreed to take over the responsibility and assume the offices held by Mr. Carter in this Company and its subsidiaries, in addition to the offices he already held. We extend to Mr. Carter our appreciation for his dedication to the Company and particularly for the major role that he played in the successful development of Foodex Systems Limited into a highly successful company with a splendid future potential.

Gross earnings from real estate activities were down $790,000 or 14%, reflective of slow housing starts and sales, the impact of inflation on operating costs, and continuing record high interest rates. These factors also had an adverse effect on our building material sales which are included in real estate activities in our operating statement. Legislation both passed and proposed in 1975 affecting real estate activities had a general unsettling effect on apartment rentals. The policy for 1976 will be to attain the maximum return on income producing real estate investments with continuing reduction in administrative and other overheads. These income producing investments and the land bank held for present and future development in Toronto, Brampton, Cambridge and Winnipeg remain as major assets. So far in 1976 the pace of our sales of housing inventory has quickened; the trend is expected to continue. We will soon be starting construction on additional major housing projects in Toronto, Brampton and Cambridge.

The results for Ontario Trust Company improved significantly over 1974. Total assets increased by $19 million or 8.6% to $236 million, the mortgage portfolio increased by $25 million or 15% to $194 million and deposit liabilities increased by $17 million or 8.4% to $222 million. This rate of growth was the result of a planned policy of moderate growth initiated by Ontario Trust at a time when money markets and interest rates were unstable. Income for the year amounted to $937,000. Income before security transactions increased by $498,000 or 97% as compared to 1974. Ontario Trust is now stronger than at any time in its history and it is expected to coninue to make further substantial progress in 1976. In December, a wholly owned subsidiary of your Company exercised its option on 82,458 Ontario Trust shares at a price of $5.00 per share, increasing its holding to 56.1% of the issued shares.

Foodex Systems Limited had a dramatic increase in results over 1974. Earnings for 1975 were $2.8 million compared with $1.5 million for 1974. Sales in the PONDEROSA Steak Houses were $37.6 million compared with $27.7 million in 1974, an increase of 41%, while profits from this division were $1.8 million compared to $750,000 in 1974, an increase of 138%. Under a continuing program of expansion 13 additional PONDEROSA units were opened in 1975, bringing the total in operation to 83. Two more will be in operation by June, 1976 and further units are scheduled to be added to the chain on a selective basis in established markets during the balance of the year. The development of two pilot operations of an

original concept — FRANK VETERE'S Pizzeria and Tavern — has now had time to prove its capability to generate profits resulting from enthusiastic public acceptance. A third unit will open soon at Yonge & Carlton Streets in Toronto, close to Maple Leaf Gardens. Other units are programmed for opening in 1976 and future years. Earnings of Foodex were helped by an increased contribution from its 62.8% owned subsidiary, Gibraltar Pari-Mutuel, Inc. The net income of this company, which owns and operates Bowie Race Track in Maryland and Freehold Raceway in New Jersey, was $1,511,000 in 1975 compared to a net income of $1,119,000 in 1974 (U.S. dollars). We are confident of the continuing growth and profitability of Foodex.

In the last quarter, the Company disposed of approximately 90% of its holding in Canadian Tokar Limited at a modest profit. Tokar has since entered the publishing business and has changed its name to Interpublishing (Canada) Limited.

Also during the last quarter, the Company disposed of its entire interest in Bakham Holdings Ltd. for a satisfactory cash consideration.

Our thanks go out to the staffs and management of our group for their efforts and cooperation during what can best be described as a difficult year.

On behalf of the Board of Directors,

Chairman

K A Roberts

Deputy Chairman,
President and Chief Executive Officer

April 15, 1976

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	1975	1974
Real estate activities:		
Land and housing sales	$ 7,365,000	$ 7,822,000
Rental property revenue	13,517,000	12,475,000
Building material sales	5,985,000	7,192,000
	26,867,000	27,489,000
Less operating costs —		
Cost of land and housing sales	6,290,000	6,131,000
Operating costs of rental properties	9,981,000	9,105,000
Cost of building materials sold	5,976,000	6,842,000
	22,247,000	22,078,000
Gross earnings from real estate activities	4,620,000	5,411,000
Financial activities:		
Equity in earnings of —		
Unconsolidated subsidiaries	2,177,000	1,193,000
Associated company	120,000	92,000
Dividend and interest income	749,000	481,000
Loss on security trading and, in 1974, provision to reduce carrying value of trading securities to market	(201,000)	(1,553,000)
Net loss on sale of investments	(312,000)	
Other income	301,000	289,000
	2,834,000	502,000
Earnings before the undernoted	7,454,000	5,913,000
General and administrative expenses	1,538,000	2,468,000
Interest	5,835,000	4,313,000
Minority interest	127,000	933,000
	7,500,000	7,714,000
Loss before income taxes and extraordinary items	46,000	1,801,000
Income tax provision (recovery) (note 10):		
Current	(195,000)	910,000
Deferred	(452,000)	1,897,000
	(647,000)	2,807,000
Earnings (loss) before extraordinary items	601,000	(4,608,000)
Extraordinary items (note 13)	1,898,000	628,000
Earnings (loss) for the year	$ 2,499,000	$ (3,980,000)
Earnings (loss) per common and preference share (note 9):		
Earnings (loss) before extraordinary items	$0.08	$(0.65)
Earnings (loss) for the year	$0.34	$(0.56)

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)
AND SUBSIDIARY COMPANIES

ASSETS

	1975	1974
Cash and bank deposit receipts	$ 2,305,000	$ 715,000
Trading securities, at market value		2,701,000
Receivables:		
Mortgages, loans and other receivables (note 3)	12,092,000	9,361,000
Due under employee share purchase plans (note 4)	1,069,000	1,069,000
	13,161,000	10,430,000
Investments (see Consolidated Summary of Investments — Appendix A) quoted market value — December 31, 1975 — $16,330,000 (April 14, 1976 — $21,998,000) December 31, 1974 — $11,032,000 (notes 2 and 5)	36,589,000	36,740,000
Real estate (note 5):		
Inventories —		
Land and housing	32,510,000	29,485,000
Building materials	1,292,000	1,378,000
	33,802,000	30,863,000
Rental properties, at cost less accumulated depreciation of $4,478,000 (1974 — $3,976,000)	78,858,000	90,740,000
	112,660,000	121,603,000
Fixed assets, at cost less accumulated depreciation of $641,000 (1974 — $610,000)	773,000	841,000
Other assets	742,000	757,000
	$166,230,000	$173,787,000

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1975

(with comparative figures at December 31, 1974)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Liabilities:		
Bank demand loans (note 5)	$ 23,213,000	$ 19,167,000
Accounts payable and accrued liabilities (note 6)	4,259,000	6,099,000
Income taxes payable (note 10)	31,000	244,000
Advance from former associated company		908,000
Bank term loans (note 5)	42,775,000	50,000,000
Mortgages and notes payable (note 5)	54,582,000	58,626,000
Deferred income taxes	8,899,000	8,299,000
	133,759,000	143,343,000
Minority interest (note 7)	2,419,000	2,891,000
Shareholders' equity (note 8):		
Capital	30,846,000	30,892,000
Contributed surplus	519,000	519,000
Deficit	(1,313,000)	(3,858,000)
	30,052,000	27,553,000
	$166,230,000	$173,787,000

On behalf of the Board:

Chamber. Director

K A Roberts Director

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	1975	1974
Retained earnings (deficit), beginning of year	$(3,858,000)	$ 375,000
Earnings (loss) for the year	2,499,000	(3,980,000)
	(1,359,000)	(3,605,000)
Deduct (add):		
Realization of excess of ascribed fair value of net assets over book value at September 30, 1972 (note 8)	(46,000)	(120,000)
Costs relating to the amalgamation with Peel-Elder Limited		373,000
	(46,000)	253,000
Deficit, end of year	$(1,313,000)	$(3,858,000)

(See accompanying notes to financial statements)

HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	1975	1974
Funds were provided from:		
Sale of assets (notes 2(b) (c) and (d))	$17,999,000	
Less: Decrease in mortgages and other liabilities	(8,945,000)	
Increase in mortgages and other receivables	(4,198,000)	
Extraordinary gain on business sales	(1,898,000)	
	2,958,000	
Decrease in receivables	1,467,000	$ 7,212,000
Increase in bank demand loans	4,046,000	
Increase in bank term loans, mortgages and notes payable		10,591,000
Total funds provided	8,471,000	17,803,000
Funds were applied to:		
Operations —		
(Earnings) loss before extraordinary items	(601,000)	4,608,000
Add (deduct) credits (charges) which do not represent flows of funds:		
Excess of equity in net earnings of associated and unconsolidated subsidiary companies over dividends received of $45,000 (1974 — $40,000)	2,252,000	1,245,000
Depreciation and amortization	(1,100,000)	(635,000)
Minority interest net of dividends paid of $127,000 (1974 — $132,000)		(801,000)
Deferred income taxes	452,000	(1,897,000)
Net loss on sale of investments	(312,000)	
	691,000	2,520,000
Increase in real estate assets	3,127,000	6,251,000
Reduction in minority interest	88,000	2,995,000
Increase in investments (note 2 (e))	412,000	334,000
Decrease in bank term loans, mortgages and notes payable	3,057,000	
Decrease (increase) in other liabilities	2,178,000	(445,000)
Decrease in bank demand loans		13,267,000
Other (net)	29,000	175,000
Total funds applied	9,582,000	25,097,000
Excess of funds applied over provided	1,111,000	7,294,000
Cash, bank deposit receipts and trading securities, beginning of year	3,416,000	10,710,000
Cash, bank deposit receipts and trading securities, end of year	$ 2,305,000	$ 3,416,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1975

1. Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of the Company and those subsidiaries whose activities are integrated with those of the Company. Integrated activities are considered to be those of a holding, investment or real estate nature. Other non-integrated subsidiaries are held as investments and accordingly are accounted for on the equity basis.

The significant consolidated subsidiaries and the Company's percentage ownership therein at December 31, 1975 are as follows:

	% owned
Peel-Elder Developments Limited	100.0
Hambro Corporation of Canada Limited ("H.C.C.")	100.0
Anglo-Scandinavian Securities Ltd.	100.0
Thalnen Securities Limited	100.0
Franklin Lumber Co. Limited	100.0
Kaufman Lumber Limited	100.0
Goldale Acceptance Limited	100.0
Aetna-Goldale Investments Limited	94.6

As explained in note 8(c) the exchange of shares with H.C.C. has been accounted for as an acquisition by H.C.C. of the net assets and business of the Company on the purchase basis of accounting. Other consolidated subsidiaries are also accounted for on the purchase basis of accounting except for Aetna-Goldale Investments Limited which is consolidated on the pooling of interest basis.

(b) Investments in unconsolidated subsidiaries and associated company —

The subsidiaries which are not consolidated are Foodex Systems Limited and Ontario Trust Company. The percentages of shares of these subsidiaries which were controlled at December 31, 1975 were 58.9% and 56.1% respectively (December 31, 1974 — 58.9% and 53.8% respectively).

These subsidiaries are accounted for on the equity basis. Under the equity basis of accounting, the investments were initially recorded in the consolidated balance sheet at cost, with the carrying values increased to recognize the Company's share of their undistributed income subsequent to the dates of investment.

Any difference between the purchase price of an investment in an unconsolidated subsidiary or an associated company and the estimated fair value of the underlying net tangible assets is left unamortized in the carrying value of the investment, provided that such difference arose prior to March 31, 1974 and further provided there is no evidence of impairment in the value of the investment. In accordance with generally accepted accounting principles, such differences arising after March 31, 1974 are being amortized over forty years.

(c) Real estate activities —

(i) Land and house sales are recorded at the date of transfer of title on receipt of the amount due on closing and, where applicable, the assumption or giving back by the purchaser of a mortgage, at a reasonable rate of interest, for the balance of the purchase price.

Land purchasers are required to pay not less than 15% of the purchase price on closing.

(ii) Condominium sales are recorded when the amount due on closing is received and the purchaser is entitled to occupancy and undertakes to assume a mortgage, at a reasonable rate of interest, for the balance of the purchase price.

(iii) Income from commercial rental properties is recorded from date of occupancy. Income from residential rental properties is recorded from the date that the property reaches 75% occupancy. Interest, taxes, and other carrying costs are capitalized until that date.

(iv) Land inventories are valued at original purchase price plus interest, realty taxes and servicing costs incurred to date. Such costs are capitalized as long as market value exceeds the total carrying value. Interest and realty taxes of $1,123,000 were capitalized during 1975 (1974 — $1,190,000). The estimated aggregate market value of land inventories is substantially more than the carrying value.

Housing inventories are valued at cost plus interest and realty taxes. Such costs are capitalized only as long as market value exceeds the total carrying value. During 1975, interest of $521,000 was capitalized against housing inventories under construction (1974 — $721,000). The total carrying value of housing inventories is less than estimated market value.

Building materials are valued at the lower of cost and net realizable value.

(v) Depreciation policy —

Rental properties:

Sinking fund method based on an estimated useful life of forty years which will write off the cost of the buildings in a series of equal annual instalments plus an interest factor of 5% compounded annually.

Apartment equipment:
10% or 15% straight-line method according to classification.

Other equipment:
20% or 30% declining balance method according to classification.

Shopping centre fixtures:
4% to 35% according to classification.

(vi) Interest —

Interest on general borrowings which is attributed to land and housing inventory and to rental properties under construction is added to the carrying value of these assets. Interest attributable to other assets is charged against operations as incurred.

(d) Deferred income taxes —

For income tax purposes, certain expenses are claimed in advance of charging such amounts in the financial statements. The resulting tax savings are set aside in the balance sheet as deferred income taxes to be credited to income in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

2. Business Acquisitions and Sales

The following significant transactions were effected in 1975:

(a) Trading securities —

All trading securities were sold for $201,000 less than the aggregate carrying value thereof.

(b) Canadian Tokar Limited —

The investment in this previously consolidated subsidiary was reduced from 76.2% to 6% as a consequence of the sale of 1,160,000 shares for a total consideration of $1,301,000 of which $953,000 was received prior to December 31, 1975 and the balance, in accounts receivable at the year-end, was received subsequently. The resulting gain on the sale of approximately $51,000 is shown as an extraordinary item in the consolidated statement of operations.

The Company's remaining interest in Canadian Tokar Limited is included in the consolidated balance sheet with investments in other companies.

(c) Bakham Holdings Ltd. —

The investment in Bakham Holdings Ltd., a 55% owned company previously accounted for on the equity basis of accounting, was sold for a total cash consideration of $1,800,000 which amount was $419,000 in excess of the consolidated carrying value.

(d) Rental properties —

Subsidiaries sold certain rental properties and other related assets for $14,135,000 resulting in a gain

of $1,847,000 (net of applicable deferred income taxes of $1,075,000). The consideration consisted of cash of $1,768,000, the assumption by the purchaser of existing mortgages in the aggregate principal amount of $8,050,000 and the taking back of a mortgage bearing interest at 10%, for $3,770,000. Subsequently the subsidiary advanced $628,000 to the purchaser to apply in the reduction of prior mortgages thereby increasing the 10% mortgage to $4,398,000.

(e) Ontario Trust Company —

A subsidiary exercised options on 82,458 shares of Ontario Trust Company at $5.00 per share for a total cash outlay of approximately $412,000.

The share of the fair value of the underlying net assets acquired exceeded the cost of the shares by $61,000 which amount is being amortized on a straight-line basis over forty years.

3. Mortgages, Loans and Other Receivables

Mortgages, loans and other receivables are summarized as follows:

	December 31	
	1975	1974
Mortgages receivable:		
10% due 1981–	$ 4,398,000	
8¾% due 1996	1,297,000	$ 1,345,000
7% due 1976–	785,000	785,000
8½% due 1978	650,000	650,000
Sundry other mortgages receivable in varying amounts to the year 1985 at interest rates from 7% to 16%	2,627,000	3,878,000
	9,757,000	6,658,000
Accounts receivable	2,277,000	2,610,000
Mortgage loans to Director and Officers	58,000	93,000
	$12,092,000	$ 9,361,000

4. Due Under Employee Share Purchase Plans

Amounts due under employee share purchase plans are as follows:

	December 31	
	1975	1974
Relating to shares of:		
The Company	$ 900,000	$ 900,000
Canadian Tokar Limited	169,000	169,000
	$ 1,069,000	$ 1,069,000

The following transactions gave rise to the above balances:

(a) Under the Company's key employee share purchase plan, 100,000 treasury shares were purchased by a trustee at $9.00 per share in 1973 for the benefit of certain employees and financed through non-interest bearing advances to the trustee. The total consideration of $900,000 is due on January 31, 1978.

(b) 125,000 shares of the former subsidiary, Canadian Tokar Limited, were sold to key employees in 1973, all of whom were directors and/or senior officers of the Company, at $3.25 per share which resulted in neither profit nor loss to the Company. The total consideration consisted of non-interest bearing promissory notes of the purchasers now due January 31, 1978 in the principal amount of $406,000 against which $237,000 was received in 1974 as a result of a reduction in the paid-up capital of that company, leaving a balance receivable of $169,000.

(c) Under the plans, the purchased shares are held by the trustees as collateral security for the advances and are released to employees as the related advances are repaid. The employees are individually liable for the amounts advanced to the trustees on their behalf; the obligation of the trustees to repay advances is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

(d) At December 31, 1975, the quoted market value of the shares of Canadian Tokar and the Company (based on the closing market price of $1.32 and $1.70 per share respectively) held as collateral security by the trustees was $734,000 below the amount owing in respect thereof.

5. Bank Loans, Mortgages and Notes Payable

	December 31	
	1975	1974
(a) Bank term loans	$42,775,000	$50,000,000

The bank term loans bear interest at 1¼% above the bank's Canadian prime rate.

The bank demand loans and bank term loans are secured by debentures aggregating $80,850,000 supported by a specific mortgage on certain of the companies' real estate holdings and a floating charge on all their property and assets, by the pledging of substantially all of the Company's bank deposit receipts and investments in shares of subsidiaries and by the guarantees of substantially all consolidated subsidiaries except for H.C.C., the liability of which is limited to the indebtedness of the company to the banks other than funded indebtedness as described in the Supplementary Letters Patent issued to H.C.C. on February 3, 1966; and the bank agrees that upon any realization under this guarantee there shall be excluded sufficient assets of H.C.C. to satisfy the rights and preferences of the holders from time to time of the 5½% cumulative redeemable preferred shares Series "A" of H.C.C. which are issued and outstanding. In addition, certain subsidiaries have pledged their accounts receivable as collateral security against bank demand loans.

The proceeds of sales of real estate, (other than sales of housing units in the ordinary course of business), investments, long-term financing (other than such financing in normal real estate development operations) and public financing by the issue of securities are to be applied in permanent reduction of the term loans. In 1975, such sales resulted in a reduction of bank term loans of $7,225,000.

(b) Mortgages and notes payable —

Mortgages and notes payable are summarized as follows:

	December 31	
	1975	1974
Mortgage loans —		
6¼% due 1996	$ 1,871,000	$ 1,916,000
7% due 1993	3,084,000	3,176,000
8% due 2000	7,416,000	7,511,000
8¾% due 1993 and 2001	9,858,000	9,947,000
9% due 1979	7,790,000	7,825,000
9¼% due 1977	3,360,000	
10½% due 1993	6,234,000	
6½% due 1993		2,303,000
6¾% due 1991		1,945,000
9¼% due 1978		3,377,000
Note payable —		
10% due 1978	4,903,000	4,903,000
Sundry other mortgages and notes repayable in varying amounts to the year 2000 at interest rates from 4% to 12¼%.	10,066,000	15,723,000
	$54,582,000	$58,626,000

The estimated aggregate amounts of principal payments required on bank term loans, mortgages and notes in the next five years are as follows:

	Bank term loans	Mortgages and notes payable
1976 —	$ 5,000,000	$2,931,000
1977 —	$20,000,000	$1,149,000
1978 —	$ 5,000,000	$5,851,000
1979 —	$10,000,000	$1,572,000
1980 —	$ 2,775,000	$1,018,000

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised as follows:

	December 31 1975	December 31 1974
Accounts payable and accrued	$ 3,131,000	$ 4,826,000
Tenants' deposits	721,000	785,000
Provision for land servicing and house construction costs	407,000	488,000
	$ 4,259,000	$ 6,099,000

7. Minority Interest

The balances shown for minority interest are made up as follows:

	December 31 1975	December 31 1974
5½% cumulative redeemable, Series A preferred shares of H.C.C. of the par value of $25 each	$ 2,296,000	$ 2,319,000
Minority interest in common shares of other consolidated subsidiaries	123,000	572,000
	$ 2,419,000	$ 2,891,000

The preferred shares of H.C.C. are redeemable at a premium of 4½% on or before February 1, 1976, 3½% thereafter to February 1, 1981, 2½% thereafter to February 1, 1986 and 1½% thereafter.

The decrease in minority interest in common shares of other consolidated subsidiaries arose primarily as a result of a reduction in paid-up capital of the consolidated subsidiary, Aetna-Goldale Investments Limited, and the sale of shares of the former subsidiary, Canadian Tokar Limited (note 4(b)). Paid-up capital of Aetna-Goldale Investments Limited was reduced during the year from $1,246,000 to $50,000 resulting in a distribution of $64,000 ($.48 per share) to the minority shareholders of Aetna-Goldale Investments Limited.

8. Shareholders' Equity

(a) The amount shown for capital of the Company is made up as follows:

Authorized:

525,000 non-voting, redeemable preference shares of no par value, ranking equally with common shareholders as to dividends and redeemable at $4.35 per share

10,000,000 common shares of no par value

Issued:

	December 31 1975	December 31 1974
447,699 preference shares	$ 1,948,000	$ 1,948,000
6,903,867 common shares	43,694,000	43,694,000
Total legal paid-up capital	45,642,000	45,642,000
Less accounting adjustments required by principles of accounting for business combinations	14,796,000	14,750,000
	$30,846,000	$30,892,000

The accounting adjustments applied in reduction of the amount of the Company's paid-up capital are as follows:

The amount by which the legal paid-up capital of shares issued in 1969 for shares of the subsidiary, Aetna-Goldale Investments Limited, exceeded the value ascribed under "pooling of interest" basis of accounting	$12,796,000
In respect of shares issued in 1972 in exchange for H.C.C. shares — Excess of amount credited to paid-up capital on issue of shares for H.C.C. over book value of H.C.C. net assets	6,551,000

Less:		
Excess of ascribed fair value of net assets of Canadian Goldale Corporation Limited over their book value at September 30, 1972 (note (c) below)	3,541,000	
Portion realized subsequent to September 30, 1972 (including $46,000 in the year ended December 31, 1975)	1,423,000	2,118,000
		4,433,000
		17,229,000
Less amount applicable to shares cancelled by the Company in 1973		2,433,000
Net adjustments, December 31, 1975		$14,796,000

(b) An officer of the Company holds an option to purchase 30,000 common shares of the Company's authorized but unissued share capital at $9.00 per share exercisable on or before January 31, 1978.

(c) As of September 30, 1972, Canadian Goldale Corporation Limited ("Canadian Goldale") (now Hambro Canada Limited) acquired all of the outstanding common shares of H.C.C. Since the above exchange transaction left the former common shareholders of H.C.C. with a majority of the shares of the Company, the exchange is treated on consolidation as an acquisition by H.C.C. on the purchase basis of accounting of the net assets and business of Canadian Goldale. The excess of the consideration ($3,541,000) over the then book value of Canadian Goldale's net tangible assets was ascribed to such net tangible assets.

The balance of the deficit account and the carrying value of capital are subject to compensating adjustments as the excess of the ascribed fair value of the net assets of the Company at September 30, 1972 over their book value at that date is realized in subsequent transactions. Of this excess, $46,000 was realized in 1975 (1974 — $120,000) and is shown as a transfer from the carrying value of capital stock to the deficit account in these financial statements.

(d) Deduction of the amount ($45,642,000) of the Company's legal paid-up capital from the total ($30,052,000) of shareholders' equity at December 31, 1975 results in a deficiency of $15,590,000 which must be eliminated before the Company is technically able to pay dividends.

9. Earnings (Loss) per Share

The calculations of earnings (loss) per common and preference shares are based on the weighted average of the equivalent number of Company shares outstanding through the year 1975 — 7,351,566 shares (1974 — 7,127,717 shares).

The exercise of the outstanding stock option (see note 8(b)) would have no significant dilutive effect on earnings (loss) per share.

10. Income Taxes

At December 31, 1975, the Company and certain subsidiaries had accumulated non-capital losses for income tax purposes of $5,854,000. Such losses are available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable in future years. These losses, if unapplied, would expire in the following years:

1978	—	$1,475,000
1979	—	3,877,000
1980	—	502,000
		$ 5,854,000

In addition, the Company and certain consolidated subsidiaries have net capital loss carry-forwards of approximately $1,174,000. Such losses are available indefinitely to apply against future net taxable capital gains.

11. Anti-Inflation Program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the Company and its subsidiaries are subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends.

The effects of the Regulations on prices, profit margins and employee compensation on the Company and its Canadian subsidiaries are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the Company's records. In addition to the restriction referred to in note 8(d), the Anti-Inflation Act prohibits the payment of any dividends to the Company's shareholders during the year ending October 13, 1976. Dividend payments by subsidiaries are also restricted to the extent set out in the notes to the consolidated summary of investments.

12. Residential Premises Rent Review Act

The Province of Ontario introduced the Residential Premises Rent Review Act effective July 28, 1975. Under this Act, rent charged on residential rental properties cannot be increased by more than 8% without approval from the Rent Review Board. Full provision has been made in the accounts for the possibility of rental rebates for the period July 28, 1975 to December 31, 1975.

13. Extraordinary Items

Extraordinary items comprise the following:

	December 31	
	1975	1974
Gain on sale of shares of a subsidiary company (see note 2(a))	$ 51,000	
Gain on sale of rental properties net of applicable deferred income taxes of $1,075,000 (see note 2(d))	1,847,000	
Reduction of taxes of certain subsidiaries resulting from the carry-forward of prior years' losses		$ 170,000
Recovery of prior years' income taxes provided as a result of a successful income tax appeal by a subsidiary company		458,000
	$ 1,898,000	$ 628,000

14. Supplementary Information

(a) Interest incurred on long-term indebtedness amounted to $8,959,000 in 1975 (1974 — $5,550,000).

(b) The aggregate direct remuneration of directors and senior officers paid or payable by the Company in the year ended December 31, 1975 was $569,000 (1974 — $478,000). In addition, aggregate direct remuneration paid or payable to such directors and senior officers by unconsolidated subsidiaries in the year ended December 31, 1975 was $130,000 (1974 — $13,000). Included in these amounts are retirement allowances totalling $183,000 which are payable in future periods commencing in 1976.

AUDITORS' REPORT

To the Shareholders of
HAMBRO CANADA LIMITED:

We have examined the consolidated balance sheet and consolidated summary of investments of Hambro Canada Limited as at December 31, 1975 and the consolidated statement of operations, deficit and changes in financial position for the year then ended. For Hambro Canada Limited, and for those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of all other consolidated subsidiaries and a company accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants

Toronto, Canada,
February 27, 1976
(except as to Appendix A to the consolidated financial statements which is at at April 14, 1976)

HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1975
(with comparative figures as at December 31, 1974)

Unconsolidated subsidiaries and associated company, on equity basis:

Foodex Systems Limited (note C)

Ontario Trust Company (note D)

Bakham Holdings Ltd. (note E)

Other companies, at cost:

Sunningdale Oils Limited

Canadian Tokar Limited (a consolidated subsidiary in 1974)

McIntyre Mines Limited

NSI Marketing Limited

Miscellaneous

Total investments

(See accompanying notes to consolidated summary of investments)

1975					1974			
Shares controlled (note A)		Quoted market value (note B)			Shares controlled (note A)		Quoted market value (note B)	Carrying value
Number	% interest	December 31 1975	April 14 1976	Carrying value	Number	% interest		
2,625,141	58.9%	$ 8,663,000	$13,782,000	$18,855,000	2,625,141	58.9%	$ 4,857,000	$17,182,000
891,434	56.1%	4,234,000	4,457,000	10,380,000	808,976	53.8%	1,982,000	9,507,000
					55,000	55.0%	1,255,000	1,255,000
		12,897,000	18,239,000	29,235,000			8,094,000	27,944,000
					150,000	3.8%	440,000	1,500,000
98,884	6.0%	131,000	178,000	78,000				
75,600	3.1%	2,911,000	3,213,000	6,608,000	75,600	3.1%	2,155,000	6,608,000
333,300	9.2%	333,000	310,000	611,000	333,300	9.2%	275,000	611,000
		58,000	58,000	57,000			68,000	77,000
		3,433,000	3,759,000	7,354,000			2,938,000	8,796,000
		$16,330,000	$21,998,000	$36,589,000			$11,032,000	$36,740,000

HAMBRO CANADA LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1975

A. Certain stock options on treasury shares of Foodex Systems Limited and Ontario Trust Company are held by employees of these subsidiaries. In addition, a subsidiary of Hambro Canada Limited holds options on 110,000 shares of Ontario Trust at $5.00 per share exercisable until 1978. Had all these options been exercised at December 31, 1975 the Company's percentage of shares controlled at that date would have been 57.8% and 57.3% respectively.

B. The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. In the opinion of Management, there has been no long-term impairment in the underlying value of any of the Company's investments and the aggregate value thereof is not less than the aggregate amount at which such investments are carried.

C. FOODEX SYSTEMS LIMITED

Foodex is an operating and holding company which is primarily engaged in the restaurant business. A 62.8% owned subsidiary owns and operates racetracks in the United States.

	December 31	
	1975	1974
Hambro's proportion of net assets (including share of $7,146,000 goodwill in Foodex' accounts) (1975 — 58.9%; 1974 — 58.9%)	$12,909,000	$11,236,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization	5,946,000	5,946,000
Carrying value at December 31	$18,855,000	$17,182,000
Revenue and net income for the year ended December 31:		
Revenue	$69,373,000	$55,094,000
Net income before minority interest	$ 3,530,000	$ 2,048,000
Minority interest in income of subsidiaries	689,000	485,000
Net income for the year	$ 2,841,000	$ 1,563,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 1,673,000	$ 916,000

Under Anti-Inflation legislation, Foodex is restricted to $384,000 in the aggregate amount of dividends it may pay in the year ending October 13, 1976.

Legal Actions

(a) By Memorandum of Settlement dated as of April 8, 1976, the lawsuit instituted by Ponderosa, Inc. and Ponderosa System, Inc. against Foodex Systems Limited in Ohio was settled. Under the settlement memorandum Foodex has agreed to transfer to Ponderosa System, Inc. its rights to the name PONDEROSA in Canada and other countries against the granting to Foodex by Ponderosa System, Inc. of exclusive rights to use the PONDEROSA name in Canada and payment by Ponderosa System, Inc. to Foodex of Foodex' expenses incurred in establishing such rights.

(b) On March 1, 1976, the charge against the Canadian subsidiary of Foodex, Albemont Limited, of having unlawfully conspired together and with others to defraud the Government of Canada in connection with the submission of tenders to the National Harbours Board was withdrawn at the request of the Crown.

(c) Albemont Limited and five other companies have been named as defendants in a counterclaim made by Her Majesty The Queen in right of Canada for damages and costs in an unstated amount arising out of alleged bidding practices and/or a conspiracy with respect to same said to be contrary to honest industrial usage in Canada. Counsel for Foodex understand that this action will not be proceeded with until criminal proceedings involving certain of the other defendants to the counter-claim have been disposed of and that it is possible that the action may not proceed at all as against Albemont Limited. Counsel are not able to advise at this stage what, if any, liability the company may incur in this action. Management of Foodex and of Albemont Limited have no knowledge of any wrongdoing by Albemont Limited in connection with the matters referred to in the counterclaim or of the evidence, if any, supporting the allegations made against Albemont Limited, and accordingly, no provision has been made in Foodex' consolidated financial statements for any liability in connection with this action.

D. Ontario Trust Company

Ontario Trust is a trust company offering full trust services including the accepting of demand and term deposits and the investing of deposited funds in securities and mortgage loans.

	December 31	
	1975	1974
Hambro's proportion of net assets (56.1%) (1974 — 53.8%)	$ 6,844,000	$ 5,881,000
Adjustment to carrying value attributed to goodwill including a negative amount of $61,000 which is being amortized over forty years	3,536,000	3,626,000
Carrying value at December 31	$10,380,000	$ 9,507,000
Total income and net income for the year ended December 31:		
Interest and other income	$21,203,000	$18,529,000
Net income for the year	$ 937,000	$ 513,000
Hambro's share of net income included in consolidated earnings for the year ended December 31	$ 504,000	$ 277,000

Under Anti-Inflation legislation, Ontario Trust is restricted to $79,000 in the aggregate amount of dividends it may pay in the year ending October 13, 1976.

E. Bakham Holdings Ltd. —

The Company's investment in Bakham Holdings Ltd. was sold during the year (see note 2(c) to the consolidated financial statements). Hambro's share of net income included in consolidated earnings for the year ended December 31, 1975 amounted to $120,000 (December 31, 1974 — $92,000).

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1975
(with comparative figures for the six months ended June 30, 1974)
(Unaudited)

	1975 (000's)	1974 (000's)
Funds were provided from:		
Increase (Decrease) in bank demand loans	$ 1,335	$ (2,520)
Decrease (Increase) in receivables	1,421	(303)
Decrease (Increase) in investments	1,500	(902)
Reduction in taxes due to losses carried forward		124
Total funds provided	4,256	(3,601)
Funds were applied to:		
Operations —		
Loss for the period	744	1,134
Add (Deduct) credits (charges) which do not represent flows of funds:		
Equity in earnings of associated and unconsolidated subsidiaries	897	656
Deferred taxes	218	—
Depreciation and amortization	(557)	(7)
Minority interest net of dividends paid of $64,000 (1974 — $67,000)	(9)	(73)
	1,293	1,710
Decrease in bank term loans, mortgages and notes payable	2,745	—
Decrease (Increase) in other liabilities	876	(517)
Increase in real estate assets	2,550	—
Reduction in minority interest	88	346
Other (net)	114	13
	6,373	(158)
Total funds applied	7,666	1,552
Excess of funds applied over provided	3,410	5,153
Cash, bank deposit receipts and trading securities at beginning of year	3,416	10,710
Cash, bank deposit receipts and trading securities at June 30	$ 6	$ 5,557

HAMBRO CANADA LIMITED

INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1975

To the shareholders:

As forecast in the report for the first quarter, consolidated operating results showed a return to operating profitability in the second quarter. However, a loss on the liquidation of a long term investment outweighed current earnings and left the overall result for the quarter at a loss of 3¢ per share.

General economic conditions continue to affect the Company's real estate activities, but gross earnings from this area in the second quarter exceeded those of the previous three quarters. With the current improvement in housing sales this trend should continue during the balance of the year.

During the second quarter our major investments — Foodex Systems Limited and Ontario Trust Company — recorded substantially improved earnings with their combined contribution to group earnings rising by 78% from that of the 1974 comparative period. Despite the uncertainty which continues to characterize the economic environment, earnings for both these companies are expected to continue their improvement.

On July 31 the sale of the 880 unit Flemingdon Park apartment complex was closed. Consolidated after tax profit on this transaction, which will be reflected in results for the third quarter, exceeds group losses sustained during the first six months.

On behalf of the Board

K. A. Roberts
Deputy Chairman

Toronto, Canada
August 26, 1975

12,346
1,079
13,425

15,958
1,072
17,030

File

HAMBRO CANADA LIMITED
And Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 1975
(with comparative figures for 1974)
(Unaudited)

	1975 (000's)	1974 (000's)
Real estate activities:		
House and land sales	2,656	6,787
Rental property revenue	6,959	5,746
Building material sales	2,731	3,425
	12,346	15,958
Less operating costs —		
Cost of house and land sales	2,162	5,147
Operating costs of rental properties	5,045	4,196
Cost of building materials sold	2,776	3,325
	9,983	12,668
Gross earnings from real estate activities	2,363	3,290
Financial activites:		
Equity in earnings of unconsolidated subsidiaries & associated company	897	656
Dividend and interest income	262	626
Loss on security trading & provision to reduce carrying value of trading securities to market	(202)	(408)
Other income	122	198
Gross earnings from financial activities	1,079	1,072
Earnings before the undernoted	3,442	4,362
General and administrative expenses	907	659
Interest	2,886	1,998
Minority interest	73	923
	3,866	3,580
Earnings (Loss) before the following	(424)	782
Loss on sale of investments	(738)	—
Earnings (Loss) before income taxes and extraordinary item	(1,162)	782
Income taxes — current (recoverable)	(200)	1,618
— deferred	(218)	298
	(418)	1,916
Loss for the period before extraordinary item	(744)	(1,134)
Extraordinary item:		
Reduction of income taxes of certain subsidiaries resulting from losses carried forward	—	124
Loss for the period	$ (744)	$(1,010)
Loss for the period per share before extraordinary item	$ (0.10)	$ (0.16)
Loss for the period per share	$ (0.10)	$ (0.15)